

The number of refinance loans originated with a combined LTV equal to or greater than 110 percent pre- and post-implementation decreased by 35 percent, or about 650 loans, in North Carolina (Table 13). Half of the other study areas experienced an increase, while the others had declines much smaller in magnitude than in North Carolina.¹¹

Conclusions

In this study, we examined changes in subprime lending activity before and after the North Carolina Anti-Predatory Lending Law was implemented. Using a database of 3.3 million subprime loans, we find a reduction in subprime originations from 1999 to 2000 due to a decline in the number of refinance originations, not loans for purchase, with most of the decline associated with loans having abusive or predatory terms. Rather than criticizing North Carolina's anti-predatory lending law for curtailing this kind of credit, it should be celebrated. Such a decline is not unexpected, since the law was enacted to curtail this type of lending. Moreover, we find that access to credit for high-risk borrowers and the cost of subprime borrowing in North Carolina have followed patterns similar to those elsewhere. Overall, we conclude that, after the law was fully implemented, the subprime market in North Carolina behaved essentially as the law intended—there was a reduction

¹¹ The findings in Tables 11-13 need to be put in context. This is because of two factors. First, there was an increase in the coverage of the LP database, from 41 percent to 50 percent of the total subprime market, over the study period. Second, there was an improvement in data reporting in LP, such that there is more missing information on loan characteristics in earlier than in later years. However, there is no reason to think these two factors would have a greater impact on North Carolina than in the other states. Moreover, if abusive or predatory characteristics were under-reported in early years, then our pre-post law examination is likely to understate actual declines in the number of loans with these features.